

FDIC State Profile

Winter 2004

Nebraska

Nebraska's economy is exhibiting evidence of a sustained recovery.

- Total employment growth in the third quarter of 2004 contributed to the largest six-month employment growth in four years. In the second and third quarters of 2004, the state's economy recovered 6,100 of the 8,600 net jobs lost in the downturn (See Chart 1).
- Growth in the construction, trade, and business services sectors has compensated for continued weakness in the manufacturing sector. While manufacturing accounts for 11.2 percent of Nebraska jobs, the sector accounted for the vast majority of the jobs lost during the downturn.
- The slight increase in the unemployment rate to 3.6 percent in the third quarter reflects the re-entry of workers—those motivated to look for work by the incipient recovery—back into the labor force.

Banking performance remains solid.

- As Nebraska's economy has rebounded, so has demand for loans. After declining in 2003, loans as a percentage of assets increased to 67.7 percent in the third quarter, eclipsing the previous high of 67.1 percent (See Table 1).
- The proportion of unprofitable, established institutions stood at 2.9 percent in the third quarter of 2004, a slight decline from a year earlier.

The Cornhusker State harvested a record crop in 2004.

- In 2004, Nebraska's corn crop exceeded 1.3 billion bushels, its largest harvest on record. Nebraska farmers also attained a record average yield of 168 bushels per acre (See Chart 2).
- Nebraska's harvest accounted for 11.6 percent of the nation's record production of 11.7 billion bushels. The state has ranked third in corn production over the past 25 years, behind Iowa and Illinois.
- The record crop will likely result in less revenue for Nebraska farmers, however. The forecasted decline in price to \$1.90 per bushel will more than offset the increase in the volume of the crop, a typical scenario for agricultural commodities. Corn, the state's second most

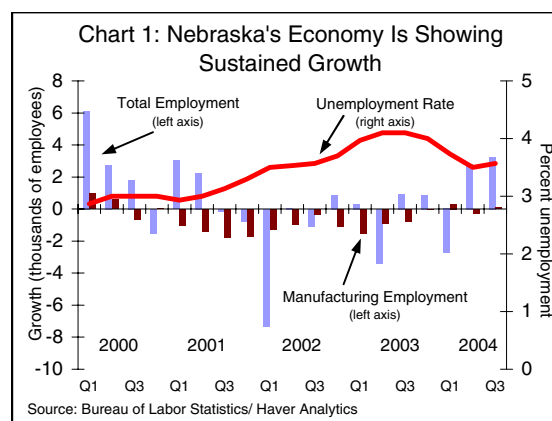
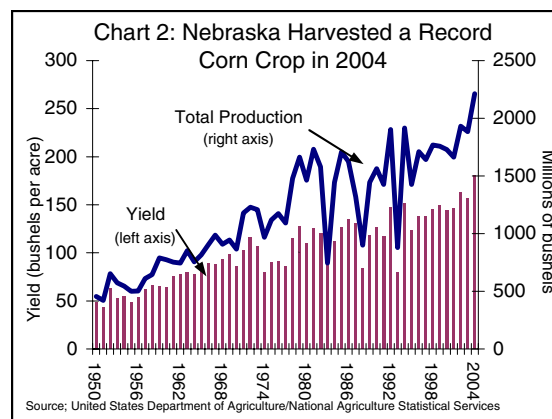


Table 1: Asset Quality Improved, Capital Levels Increased, and Earnings Remain Solid

	September				
	2004	2003	2002	2001	2000
Capital					
Tier 1 Leverage Capital Ratio	9.95	9.79	9.78	9.69	9.89
Asset Quality					
Past Due Loan Ratio	1.59	1.90	1.79	2.09	1.64
Net Charge-off Rate	0.02	0.07	0.06	0.04	0.01
Earnings					
Pretax Return on Assets	1.52	1.50	1.61	1.41	1.66
Net Interest Margin	4.15	4.16	4.28	4.05	4.23

Source: FDIC. Figures are median values.



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important agricultural commodity after cattle, has accounted for 19.8 percent of Nebraska's revenue in the past five years.

Long-term drought has worsened over much of Nebraska.

- Rivers, reservoirs, and aquifers have been depleted by five years of moderate to severe drought conditions (See Map 1).
- A measurement of approximately 5,000 groundwater wells indicated that the High Plains Aquifer declined between one and five feet from 2002 to 2003, a moderately severe depletion.
- As reservoirs throughout the western half of the state have fallen below 75 percent of total capacity, water management authorities have begun to consider reducing farmer water allotments. At Lake McConaughy, the largest lake/reservoir in the state, allotments will be cut from 12 inches to 6 inches during the next irrigation season. Such reductions could have severe implications for farmers.

The long-term trend of core funding erosion has resumed.

- In the 1990s, a confluence of competitive factors, ranging from rapidly increasing stock prices to strong deposit growth in large banks and credit unions, made core deposits more difficult to acquire for community institutions.¹ As a result, core funding in these institutions dropped steadily in the 1990s (See Chart 3).
- Stock market weaknesses in 2001 and 2002 helped to slow the core funding losses temporarily, as funds flowed from the markets into the safety of insured deposits.
- However, recent improvement in the stock markets again has lured funds out of community banks, and the long-term downward trend in core funding appears to have resumed. Core funds now make up just 70.5 percent of community bank assets in Nebraska, an all-time low.

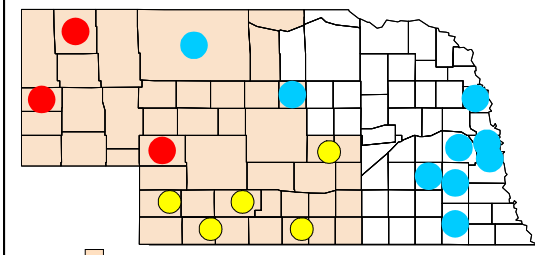
The number of rural bank offices has increased slightly despite depopulation.

- Despite lower population and economic growth and less new bank activity, the rate of decline in the number of hometown institutions in rural Nebraska has been similar to that of the state's urban areas during the past decade.
- However, rural Nebraska has seen an increase in its banking presence despite a net loss of 50 headquartered institutions. The number of banking offices operating in

rural Nebraska increased from 340 to 359 in the 10 years ending June 2004 (See Chart 4).

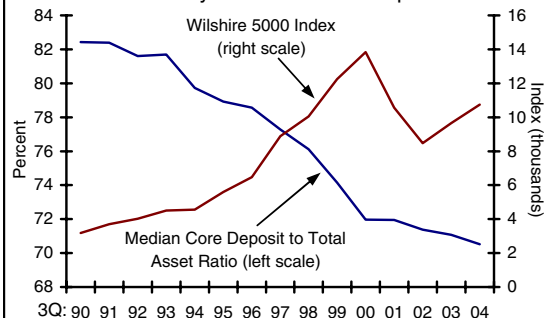
- Faced with lower market growth prospects and seeking opportunity, rural Nebraska institutions are increasingly operating branches in urban areas. As a result, the proportion their branches located in urban areas has increased from 5.0 percent in 1994 to 15.2 percent in 2004. Currently, 16 rural institutions, representing 11.3 percent of all rural Nebraska institutions, are operating 44 branch offices in urban areas.

Map 1: Reservoirs and Lakes in Drought-Affected Areas Continue to Decline



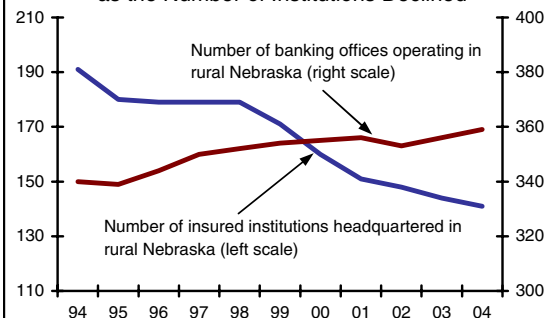
* Current levels for November compared to 1996-2000 average.
Source: US Army Corp of Engineers, US Geological Survey, US Bureau of Reclamation, University of Nebraska, Lincoln: Drought Monitor

Chart 3: The Stock Market Again Is a Lure for Community Institution Core Deposits



Source: FDIC, insured community banks and thrifts, Haver Analytics

Chart 4: Banking Offices in Rural Nebraska Increased as the Number of Institutions Declined



Source: FDIC. Bank and thrift summary of deposit data

¹"Core deposits" include savings, checking, and money market accounts, as well as time deposits of less than \$100,000. These are usually considered more stable funding sources.

Nebraska at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	265	273	284	290	294
Total Assets (in thousands)	45,808,019	49,143,046	47,977,802	46,023,910	45,503,658
New Institutions (# < 3 years)	2	3	6	6	3
New Institutions (# < 9 years)	11	15	19	18	14
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.95	9.79	9.78	9.70	9.89
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.59%	1.90%	1.79%	2.09%	1.64%
Past-Due and Nonaccrual >= 5%	18	36	32	36	23
ALLL/Total Loans (median %)	1.54%	1.57%	1.54%	1.54%	1.48%
ALLL/Noncurrent Loans (median multiple)	2.01	1.73	1.61	1.52	1.92
Net Loan Losses/Loans (aggregate)	0.47%	0.47%	0.48%	0.62%	0.38%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	7	9	9	17	6
Percent Unprofitable	2.64%	3.30%	3.17%	5.86%	2.04%
Return on Assets (median %)	1.16	1.15	1.21	1.13	1.23
25th Percentile	0.80	0.78	0.90	0.73	0.90
Net Interest Margin (median %)	4.15%	4.16%	4.27%	4.05%	4.23%
Yield on Earning Assets (median)	5.83%	6.22%	7.03%	8.14%	8.34%
Cost of Funding Earning Assets (median)	1.70%	2.09%	2.76%	4.09%	4.11%
Provisions to Avg. Assets (median)	0.05%	0.11%	0.09%	0.10%	0.06%
Noninterest Income to Avg. Assets (median)	0.53%	0.53%	0.50%	0.48%	0.47%
Overhead to Avg. Assets (median)	2.67%	2.69%	2.67%	2.66%	2.63%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	84.13%	81.38%	82.08%	80.31%	81.09%
Loans to Assets (median %)	67.66%	65.83%	67.14%	66.59%	66.46%
Brokered Deposits (# of Institutions)	87	81	81	79	81
Bro. Deps./Assets (median for above inst.)	2.28%	2.09%	2.32%	2.45%	2.20%
Noncore Funding to Assets (median)	19.36%	16.66%	17.07%	16.13%	16.11%
Core Funding to Assets (median)	68.49%	70.16%	70.31%	71.09%	71.50%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	166	170	177	179	184
National	68	71	75	78	78
State Member	20	21	18	18	17
S&L	5	5	5	5	5
Savings Bank	6	6	9	10	10
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	219	15,896,301	82.64%	34.70%	
Omaha NE-IA	31	24,077,525	11.70%	52.56%	
Lincoln NE	12	5,500,911	4.53%	12.01%	
Sioux City IA-NE	3	333,282	1.13%	0.73%	